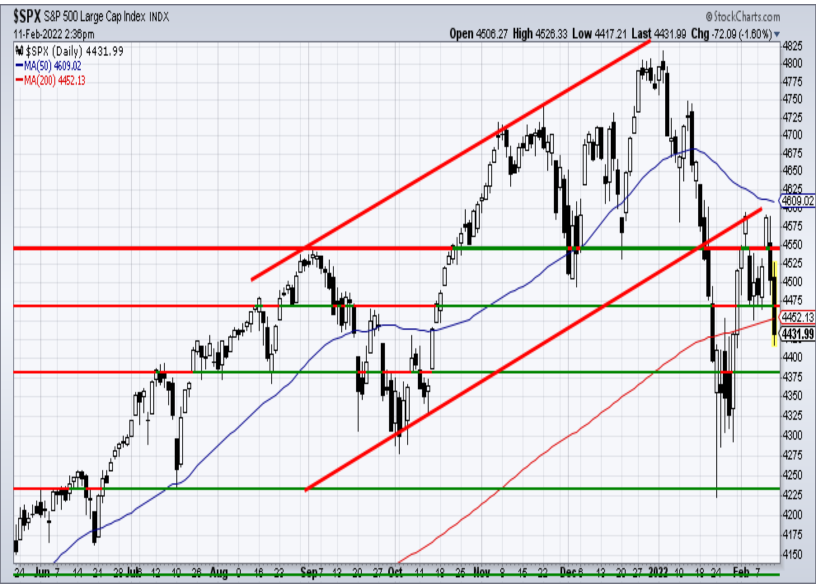
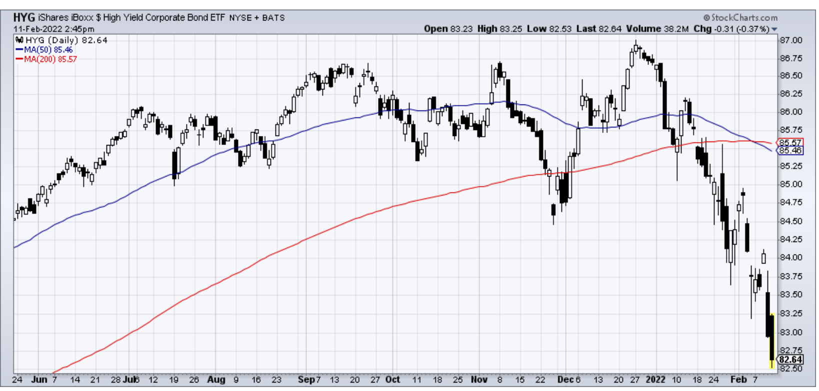
BILLS ASSET MANAGEMENT — **BO BILLS** (615) 371-5928
SAM BILLS (865) 525-1329
CARTER BILLS (615) 585-6867

BAM MARKET NOTE

FEBRUARY 11, 2022



As we mentioned last week, this market remains perilous. After moving up early this week, the rally stalled right where expected – the prior week's highs and just below the meeting of the 50-day moving average and the bottom of the long-term bull market channel marked in red. The decline over the last 2 days reinforces the ongoing down-trend as the S&P failed to make a higher high from last week. The stage is now set for a retest of the recent lows over the coming days/weeks. We believe a re-test of the closing low around 4325 is very likely and, perhaps, a test of the intraday low of 4225. The down movement today has pierced the 200-day moving average so the bulls will try and make a stand for a late afternoon rally to get back above this level before the weekend comes. Whether they do or not, is probably moot as the index looks poised to move lower.



If high-yield bonds are a harbinger of things to come (and they often are!), the markets are still on a treacherous path. The decline in high yields shows no sign of abating.

Our Point

The market got another dose of bad inflation data yesterday that led to an afternoon swoon. Hawkish comments from Fed Governor James Bullard added some Wall Street drama as the reality of more interest rates than expected hit traders. Talk of an emergency meeting of the Fed (before their next scheduled meeting in March) was whispered. Oh, and there was also talk of a Russian invasion of Ukraine as early as next week. All of this and the significant resistance noted above, was enough to stop the bulls in their tracks. The bears have definitely taken control again. Earnings, economic news and the potential war in Ukraine will be on investor's minds next week. Fed talk will be watched closely as the Fed has had the habit of rushing in to back stop any market weakness in year's past. However, that was before the record inflation we are witnessing now. Though anything is possible, it seems very unlikely that the Fed can assuage the market when they need to fight inflation instead. With so much uncertainty and a market already nervous, the potential for more losses outweighs the hope of a quick rebound. Risk is very elevated, and it would not take much bad news to lead to another tranche down. We took advantage of the recent gains and sold our remaining equity positions last week. Our remaining holdings are in low volatility positions that have continued to trend up or at least hold their own. We did sell one significant position this week as it started to trend down and will do the same with our remaining positions if they weaken. Our portfolios are up a little for the month and should weather any further downtrend with little impact to our portfolios. While the current market is uncomfortable, we firmly believe that great opportunity will come out of any further decline. The key will be to emerge on the other side with most of your capital intact. Please contact us with any questions or concerns. In the meantime, it looks to be an unseasonably warm February weekend. Enjoy it and don't forget to get those cards, flowers, candies, etc. for your sweetheart on Monday.